



State Accounting Office

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# Internal Controls and You

April 2017

## *Agenda*

- Introduction
- Internal Controls – what is it?
- Internal Controls – where is it?
- How Does this Apply to Me?
- Where to Find Additional Information

## *Who Am I?*

Rachael Krizanek - Internal Controls and Policy Manager at State Accounting Office (SAO)

- Responsible for establishing and monitoring the Statewide internal control guidance, which is based on the Federal Green Book, and for accounting and business process policies.
- Prior experience included 15 years as an Auditor for the NY State Comptroller's Office, performing operational, compliance, and internal control audits of local governments (cities, schools, counties, etc.).

# Internal Controls – what is it?

APPLICATION GUIDE **CONTROL** TRUST EMPLOYEES  
OVERCOME PROCESS  
DECISION  
SHAREHOLDERS  
ANTICIPATE **RISKS**  
INTERNAL CONTROL OPERATION DEFINE VALUE  
**MANAGEMENT** PROCEEDINGS  
RELIABILITY STRUCTURE IDENTIFY  
CONSISTENCY

## *Internal Controls*

- A process that provides reasonable assurance that the objectives of the organization will be achieved.
- Not one event, but a series of actions that occur throughout an organization's operations.
- An integral part of the operational processes and not a separate system.

## *Statewide Guidance*

- SAO's framework provides general guidance, but does not prescribe specifically how management should design, implement, and operate their internal control system.
- Includes:
  - General oversight (contained in 5 guidance chapters)
  - Georgia specific examples
  - Suggested templates (relating to financial reporting)

<http://sao.georgia.gov/internal-controls>

## *Statewide Guidance*

- Based on Federal Green Book, which contains five components:
  1. Control Environment
  2. Risk Assessment
  3. Control Activities
  4. Information and Communication
  5. Monitoring

<http://sao.georgia.gov/internal-controls>

# *1. Control Environment*

- Provides the discipline and structure, which impacts the overall quality of internal controls.
- Includes, such things as:
  - Code of Ethics Governor's Executive Order relating to Code of Ethics
  - O.C.G.A. sections (code of ethics and conflicts of interest)
  - Employment practices
  - Etc.



## ***2. Risk Assessment***

- Every organization faces a variety of risks from external and internal sources that impact the achievement of the organization's objectives (includes purchasing related objectives too).
- Mechanisms are established to identify, analyze, and respond to changes potentially impacting the internal control system.

### ***3. Control Activities***

Actions management establishes through policies and procedures to achieve objectives and respond to risks (including fraud risks) in the internal control system.

- Essentially, these are the tasks already being performed (documenting specifics such as: who does it, what is done, when is it done, how often is it done, who reviews it, etc.) to protect against fraud and ensure proper recording and reporting.
- Remember this also includes information systems (computer/automated) considerations.

## *4. Information and Communication*

- Pertinent information must be identified, captured, and communicated in a form and timeframe that enables people to carry out their responsibilities.
- Everyone must understand their role in the internal control system, as well as how individual activities relates to the work of others.
- This component is intertwined with all aspects of the internal system.

## 5. Monitoring

- Essential in helping internal controls to remain aligned with changing objectives, environment, laws, resources, and risks.
- Assesses the quality of performance over time and promptly resolves the findings of audits and other reviews.
- Once system is in place, how is it working? Determine if the control activities were:
  - applied at relevant times
  - in a consistent manner
  - applied by competent person with proper authority

# Internal Controls – where is it?

## *Internal Control Locations*

- Internal Controls can be found in various sources, including:
  - Statewide guidance
  - Governor's Executive Orders
  - Official Code of Georgia Annotated (O.C.G.A.)
  - Policies (Statewide and Agency specific)
  - Procedures (Statewide and Agency specific)
  - Etc.

## *Internal Control Related - Executive Order*

- Governor's Executive Order
  - Establishes a Code of Ethics for Executive Branch Officers and Employees
  - signed January 10, 2011, recently revised March 30, 2017

## ***Internal Control Related - O.C.G.A.***

- OCGA Title 45, Chapter 10, Article 1 – Codes of Ethics
- OCGA Title 45, Chapter 10, Article 2 – Conflicts of Interest



## *Statewide Internal Control Related Policies*

- Some Policies Specific to Purchasing Process:
  - Purchase Orders Policy
  - Payment Method Policy
  - Single Pay Policy

<http://sao.georgia.gov/business-process-policies>

## *Agency Policies and Procedures*

- Policy and Procedures Manual
  - Such as having documented policies or procedures and job duties
- Internal Controls submissions to SAO
  - Anyone talking about this in your Agency?
  - Do you know what it contains?
  - Any impact on you and purchasing?

## How Does this Apply to Me?

## *Internal Control Responsibility*

***Everyone*** has a responsibility for internal controls



- Management – directly responsible for the design, implementation, and operating effectiveness.
- Staff – help management and are responsible for reporting issues.
  - You will either be performing or overseeing some aspect of your Agency's internal control system.

## *Typical Purchasing Process*

- What is the process/cycle relating to a purchase
  - Item Requisition:
    - Someone needs the item
    - Someone requests the item
    - Someone approves the purchase of the item
  - Item Purchase
  - Item Receipt
  - Item Recording (asset tracking)
  - Item Payment

## *Purchasing Process - Control Environment*

- How does internal controls impact the purchasing process?
  - Control Environment is overarching and could include:
    - Management's attitude, do they seem to accept or ignore
      - Bribes to divert business to certain vendors
      - Friends and/or family receiving the business
  - Or
  - Management continually stresses that employees follow policies and procedures and that everyone acts accordingly.

## ***Purchasing Process – Risk Assessment and Control Activities***

- How does internal controls impact the purchasing process?
  - Part of the Risk Assessment is to determine what risks could occur during each step of the purchasing process.
  - Then Control Activities would be designed and put in to place to mitigate these risks.

## *Risks – Item Requisition*

- Not needed for State purposes
- Alternate item already on hand could be used
- Wrong item is requested
- Purchase is approved even though money is not available in the budget



## *Controls – Item Requisition*

Risks	Possible Controls
Purchase is approved even though money is not available in the budget	<ul style="list-style-type: none"><li>• Activate software controls warning or blocking purchase approval if budget is not available</li><li>• Use standardized checklist detailing things to consider to aid in purchase approval (such as verifying availability of budgetary appropriations)</li></ul>

## *Risks – Item Purchase*

- Item not approved is purchased
- Item is not purchased at lowest cost
- Item is not purchased at desired quality
- Item is not purchased from an appropriate vendor (instead a friend or vendor where kickback will be received)
- Item is not purchased in accordance with requirements (such as need for RFP or Bid)

## *Controls – Item Purchase*

Risks	Possible Controls
Item purchased is not approved	<ul style="list-style-type: none"><li>• Limit the number of people that can purchase items</li><li>• Clear delegation of authority documented including who can approve and for what amounts</li></ul>

## *Risks – Recording of Items*

- Items are received but are not recorded
- Items are received but are not recorded timely
- Items are recorded but are not actually received
- Items are recorded with the wrong physical location
- Items are properly recorded but records are not updated (for disposals, location changes, etc.)

## *Controls – Recording of Item*

Risks	Possible Controls
Items are received but are not recorded and/or are not recorded timely	<ul style="list-style-type: none"><li>• Limit the number of people that can record items</li><li>• Segregate duties (preferably people recording items are not involved in the ordering process)</li><li>• Perform a three way match between the Purchase Order, Receiver documents and Invoice</li></ul>

## *Risks – Paying for Item*

- Items are paid for that were not actually received
- Items are not paid for timely
- Items are paid for out of the wrong budget area (wrong fund, wrong program, wrong account code, etc.)

## *Controls – Paying for Item*

Risks	Possible Controls
Items are paid for that were not actually received	<ul style="list-style-type: none"><li>• Limit the number of people that can process payments</li><li>• Segregate duties (preferably people paying for items are not involved in the ordering or receipt process)</li><li>• Use standardized checklist detailing things to consider to aid in item payment (such as requiring documentation of item receipt)</li></ul>

## *Controls – Paying for Item*

Risks	Possible Controls
Items are not paid for timely and/or paid for out of the wrong budget area	<ul style="list-style-type: none"><li>• Limit the number of people that can process payments</li><li>• Activate software controls limiting users ability to record to certain funds or account codes, and have warnings if budget is not available</li><li>• Use standardized checklist detailing things to consider to aid in item payment (such as documented accounting procedures, time expectations, etc.)</li></ul>



## *Overall Control Activities to Consider*

- Properly segregate duties
  - One person should not control most or all steps in the process
- If duties cannot be segregated, implement:
  - Mitigating controls
  - Adequate supervision throughout
- Consistent and timely monitoring, to ensure:
  - Proper staff is performing the assigned tasks at the appropriate times
- Consistent training and education to all staff involved

## ***Purchasing Process – Information & Communication and Monitoring***

- How does internal controls impact the purchasing process?
  - Documented policies and procedures communicated to staff so they understand their role in the internal control system.
  - Ongoing monitoring should occur to ensure the internal control system is operating as designed (continuous process).

## Questions??



## *Where to Find Additional Information*

The Green Book is available on GAO's website at:

[www.gao.gov/greenbook](http://www.gao.gov/greenbook)

SAO's website:

<http://sao.georgia.gov/internal-controls>

<http://sao.georgia.gov/policies-and-procedures>

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